PENNON GROUP PLC **29 November 2012**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2012

Pennon Group announces its unaudited results for the half year ended 30 September 2012.

A presentation for City audiences will be held today, Thursday 29 November 2012, at 08:30am at the Auditorium, The Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1. A live webcast of the results presentation will be available at pennon-group.co.uk /investor/presentations, and a recording of the presentation will be available thereafter.

For further information today, 29 November 2012, please contact :

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Ken Harvey, Chairman said:

“We announced on 15 November that trading in Viridor has been significantly below the high level of last year’s first half with recyclate prices remaining under pressure reflecting world economic and market conditions. Viridor is responding to the near-term challenges and has recovered about half of the impact of the reduction in recyclate prices through the terms of customer supply contracts and cost reductions. We remain cautious about the future prospects for recyclate prices. We have, however, made further strong progress on our PPP and EfW pipeline this half year which will form the basis for future growth.

“South West Water is continuing its strong operational performance against the 2010-2015 regulatory contract with further advances in operating efficiency and customer service. Despite the wettest summer in 100 years impacting customer demand and operating costs, the company’s profit before tax has increased through rigorous cost control, efficiency delivery and stable interest costs. South West Water was unable to consent to Ofwat’s licence change proposals but has responded constructively on how its concerns can be addressed.

“Notwithstanding current challenges, the Group has delivered increased overall profit before tax for the first half year and an increase in dividend in line with our stated policy.”

H1 2012/13 FINANCIAL HIGHLIGHTS

- Profit before tax up 3.4% to £111.1m
    - South West Water up 10.0% to £83.8m
    - Viridor down 26.5% to £22.5m
- Earnings per share before deferred tax up 3.4% to 24.3p[(1)]
- Dividend
    - Interim dividend per share up 6.6% to 8.76p
- Capital investment up 88% to £188m[(2)]
    - Includes 4 EfWs under construction
- Substantial cash resources and committed funding
    - £85m new/refinanced facilities since 31 March 2012
    - £995m cash/committed facilities at 30 September 2012[(3)]

[(1)] Basic earnings per share were 26.2p

[(2)] Including construction spend on service concession arrangements

[(3)] Including £126m deposits with Letter of Credit providers and lessors

H1 2012/13 OPERATIONAL HIGHLIGHTS

South West Water:

- Strong performance against 2010 – 2015 regulatory contract
- PBT up in spite of atypical weather
- Average funding cost 4.0%
- Strong operational performance
- Preparing for PR14
- Unable to accept Ofwat Section 13 licence proposals but responded constructively on how concerns can be addressed

Viridor:

- Continuing growth in profits from joint ventures outweighed by reduction in recycling
    - primarily price as flagged previously
- Significant progress in developing pipeline of long-term projects including
    - financial close reached for the Glasgow DBFO[1]
    - financial close reached[2] for the South London Waste Partnership PPP
    - preferred bidder for the Peterborough PPP
    - Dunbar planning relaxed;[2] proposed EfW can now serve all of Scotland

(1) DBFO – Design Build Finance Operate

(2) Post half year

GROUP OVERVIEW

- Revenue down by 1.4% to £633.7m.
- Operating profit down by 4.8% to £136.3m.
- Net interest payable reduced by 26% to £27.4m.
- Profit before tax up 3.4% to £111.1m.
- Earnings per share before deferred tax up by 3.4% to 24.3p. Basic earnings per share increased from 26.1p to 26.2p.
- Capital investment(1) up 88% to £188.2m.
- Net borrowings £2,173m, an increase of £68m since 31 March 2012. Gearing, being net borrowings to (shareholders' funds plus net borrowings) was 72% (H1 2011/12 – 72%). Net debt includes £252m for EfW plants under construction (Runcorn II, Exeter, Oxfordshire and Cardiff).
- Substantial cash resources and committed facilities of £995m(2) to fund future investment - well placed in current financial market conditions.
- South West Water net debt to RCV was 58.6% (31 March 2012 – 56.1%).
- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions) was 4.6 times (H1 2011/12 – 3.7 times).
- Average debt maturity 22 years.

(1) including construction spend on service concession arrangements

(2) including £126m deposits with Letter of Credit providers and lessors

DIVIDEND

The interim dividend of 8.76p per share represents an increase of 6.6%, in line with the previously announced policy to grow the Group dividend by 4% per annum above inflation up to the end of 2014/15.

The dividend will be paid on 4 April 2013 to shareholders on the register on 1 February 2013. The Company is also offering a scrip dividend alternative. The final date for receipt of forms of election/mandate in respect of the scrip dividend alternative for the interim dividend will be 11 March 2013.

SOUTH WEST WATER

South West Water is continuing its strong operational performance against the 2010-2015 regulatory contract with further advances in operating efficiency and customer service. Despite the wettest summer in 100 years impacting customer demand, the company's profit before tax has increased as a result of rigorous cost control, continued efficiency delivery and lower interest costs.

Financial Highlights

South West Water's operating profit for the half year increased by £7.1m (6.6%) to £115.0m.

Revenues rose 5.0% to £256.5m as a result of tariff increases and new connections, offset by an overall reduction in demand and the effects of customers switching to a metered tariff. Approved tariff increases, including the 2.5% K factor, amounted to £20.4m and 2,600 new customer connections contributed £1.2m of additional revenue. Customers switching from unmeasured to metered charging reduced revenue by £4.5m. 74.7% of South West Water's domestic customers are now metered. Customer demand has fallen by 3.5% on the same period last year affected by the very wet weather experienced throughout the spring and summer this year.

Operating costs, including depreciation and restructuring costs, increased from £136.4m to £141.5m.

Cost increases (including business rates) for H1 2012/13 were £4.9m. Cumulative cost increases over K5 continue to be lower than RPI for the same period. £2.0m of efficiencies have been delivered in this half year bringing the cumulative K5 delivery to £17.1m. Other cost increases were:

- Costs from new capital schemes of £1.9m (reflecting additional asset maintenance relating to the increased emphasis on maintenance in the investment programme and the growing asset base);
- Bad debt charges of £0.6m, equivalent to 2.1% of revenue, marginally higher than full year 2011/12 but consistent with H1 2011/12;
- Changes of £0.5m reflecting increased private sewer operational costs and atypical costs as a result of the wet weather.

The net interest charge of £31.2m was £0.5m below the first half of 2011/12, primarily reflecting the lower RPI on indexed linked facilities, net of the costs of new borrowings.

Profit before tax increased by 10.0% to £83.8m.

Capital expenditure in the first half of 2012/13 was £42.7m compared with £50.9m in the first half of last year. Regulatory net capital expenditure[(1)] was £49.5m. The focus for the capital programme remains weighted towards asset maintenance schemes and increasing the resilience of the company's infrastructure. Major investments for the year include improvements at waste water works targeting compliance and reduced pollution incidents through investment in storm tanks and increasing sewerage system capacity. Clean water network improvements are targeting reliability, water quality, security of supply, and asset enhancements enabling changed operational ways of working through the PUROS[(2)] programme.

The robustness of the company's networks and assets is illustrated by achieving Ofwat's 'stable serviceability' status in all areas.

On 1 October 2011 the Government transferred the ownership of private sewers and lateral drains to water and sewerage companies. As a result, South West Water's sewer network length is estimated to have increased by over 50%. £1.6m of operating costs and £0.6m of maintenance costs were incurred in H1 2012/13, bringing cumulative expenditure since the transfer to £4.1m and £1.2m respectively.

Shareholders are expected to receive appropriate returns for K5 private sewers and pumping stations expenditure, provided that the money is spent efficiently, through the regulatory Interim Determination of K (IDoK) mechanism, with a submission currently planned for 2013 and revenue reflected in subsequent financial years.

[(1)] Capital expenditure including infrastructure renewals expenditure, less grants and contributions
[(2)] PUROS – Phased Utilisation of Remote Operating Systems

Efficiency

South West Water remains ahead of target in delivering the required operating cost efficiency over K5.

The company has front end loaded delivery of the required 2.8%[(1)] p.a. average operating cost efficiencies with an average 4.8% p.a. delivered in this K period to date. This targeted savings programme has delivered £2.0m of efficiencies in H1 2012/13, bringing the K5 total to date to £17.1m. This is being achieved through ongoing improvement programmes including:

- Operational ways of working (PUROS)
- Energy procurement and usage with 96% of energy requirements fixed for K5 at rates favourable to the Final Determination
- Rationalising administration and support services, and
- Right-sourcing and innovative contracting

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date continues to be favourable compared with the Capital Incentive Scheme baseline(2) and is targeted to achieve 5% outperformance of the Final Determination(3) K5 capital programme.

(1) average over K5 (2010-2015)
(2) based on current published Construction Output Price Index (COPI)
(3) using 2009 Final Determination estimates of COPI

<u>Operational Highlights</u>

South West Water's company-wide 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of the company's operations, with robust operational performance and high standards of customer service underpinned by strong financial results.

Pure Water

A significant proportion of the company's capital programme in 2012/13 is focused on maintaining drinking water quality. South West Water aims to deliver a high level of water quality compliance as measured against the Drinking Water Inspectorate's tough quality standards.

South West Water is continuing to deliver industry-leading performance in reducing leakage levels. In 2011/12 the company achieved a new record low of 81Ml of water lost on average per day over a 12 month period in addition to beating the rolling three year average target. Leakage targets have been met every year since their introduction.

South West Water has successfully managed its water resources to enable a continued secure supply of water for the region. In March this year it was announced that the company expected 2012 to be the sixteenth consecutive year without water restrictions – confidence expressed in the water resource position before what was in the event the wettest summer in 100 years.

Work continues on the innovative industry leading programme of work called ‘Upstream Thinking’ to improve raw water quality and quantity in a sustainable way. South West Water is working on six major catchment management projects, including a significant programme on the main moor sources on Exmoor and a pilot project on Dartmoor, to re-establish the wetlands that naturally cleanse water thereby improving water quality in rivers and reservoirs.

The project has been recognised for leading the way in business sustainability and for its positive environmental impact. In June it won the “Large Business Award” at the ICAEW Finance for the Future Awards.

Pure Service

South West Water’s emphasis on excellent service is delivering tangible improvements for customers and is reflected in reducing levels of contacts and customer complaints. South West Water is driving higher levels of customer satisfaction with its highest service quality score recorded in the first half of 2012/13. The trend of improvements in this area continues and is reflected in Ofwat’s Service Improvement Mechanism (SIM) score which is increasing during 2012/13. This is in addition to a 78% improvement in the score seen in the previous two years.

The introduction of a customer relationship system to manage customer contacts through to resolution and online offerings such as ‘My Account’ online account management and smartphone apps further reflect the commitment to customer service improvements. The Consumer Council for Water in September confirmed that complaints in 2011/12 were 25% lower than in 2010/11 and halved in the last two years. More than 95% of customers’ complaints are resolved first time – making South West Water one of the best performing water and sewerage companies in the country on this measure.

The cost of bad debts marginally increased in the period. The charge as a proportion of revenue at 2.1% is consistent with H1 2011/12, but slightly higher than the full year 2011/12, reflecting the general economic conditions. Collection initiatives to improve the bad debt position, including tracing previous customers through third party data traces, and working with social housing partners, are being targeted. The Restart programme continues to incentivise customers into regular payment plans and the company has a number of schemes in place to assist vulnerable customers.

Pure Environment

The wettest summer in 100 years has inevitably resulted in an increase in operational incidents.

The focus has been on effectively managing the impact of extreme wet weather conditions. Regrettably the exceptional rainfall resulted in an increase in flooding incidents for customers. South West Water has proactively managed these incidents and supported customers with flooding surgeries held in the worst affected areas.

Despite these weather impacts 133 out of 146 bathing waters (91%) achieved the European 'mandatory' standard (good status) and 88 beaches (60%) achieved the 'guideline' standard (excellent status). South West Water is committed to delivering sustainable environmental improvements to the region's bathing waters, with investments in storm tanks, filtration and cleaning processes in progress at two key sites.

South West Water consistently delivers a strong compliance performance at waste water treatment works. Waste water was treated to required standards for 99.57% of the population in 2011. The focus is now on addressing smaller works which are more challenged in meeting standards, and investment in this area has targeted modifications to treatment processes including filtration, screening and improved automation of monitoring.

The company achieved good performance against Ofwat's new Key Performance Indicators (KPIs). Customer experience, reliability and availability of supply, and key environmental impact measures all achieved 'green' status.

In addition, the company delivered sector-leading performance for current serviceability, sludge disposal, security of supply, leakage and sewer flooding incidents. Further improvements and investments are targeted for reducing pollution incidents and further improving compliance at waste water treatment works.

Political and Regulatory Developments

Government Payment

The Government's commitment to fund a cut in eligible household customer bills in the region by £50 from 2013/14 was welcomed by South West Water. The agreement with Defra to secure this reduction has been signed and is ready for implementation for the 2013/14 charging year. The bill reduction will directly benefit customers and will be passed straight through to them, having no impact on the regulatory and financial structure of the business.

Draft Water Bill

The 'Water for Life' White Paper set out a clear direction for evolutionary change within the industry. The future of the water industry, with reforms to regulation and, where appropriate, market competition could deliver significant benefits if implemented with careful regard as to how they interlink with the interests of customers, companies, investors, the environment and the wider economy.

The retention of investor and customer confidence is noted as being key; sentiments which are echoed in Defra's consultative Strategic Policy Statement to Ofwat.

The Draft Water Bill focuses on regulatory and competition reforms. South West Water supports further market development for non-domestic customers and is preparing for this through its new and enhanced services for business customers via the launch of 'Source for Business'.

PROPOSED LICENCE CHANGES

South West Water, in common with the majority of the other water companies, on 23 November notified Ofwat that it was unable to accept the proposed changes to its operating Licence conditions set out in the Section 13 Notice from Ofwat dated 26 October 2012.

Whilst the company supports the need to make Licence changes for the next price review process in 2014 to find new and more innovative ways to deliver sustainable water and sewerage services, it is believed that the Licence proposals set out by Ofwat in the Notice are not in the long-term interests of customers and are insufficient to maintain investor confidence.

The company welcomes Ofwat's latest statement to the industry which clarifies some of the Section 13 Notice proposals. Whilst it has not been able to consent to the proposals it has responded to Ofwat constructively on its concerns and how these can be addressed. The company looks forward to continuing discussions with Ofwat to achieve a mutually acceptable conclusion which will protect the interests of investors and South West Water customers.

Preparing for PR14

Ahead of the next Price Review in 2014 (PR14) South West Water is currently focusing on:

- an updated 25-year outlook
- significant customer and stakeholder engagement and research (to gauge long-term and short-term priorities for investment)
- short and long-term investment scenario planning.

Initial phases of customer research have been carried out in order to understand further customers' priorities for service delivery and change since the last Price Review in 2009. The overarching message is that the top priority for customers remains the provision of a "reliable, safe and clean drinking water supply".

Communication and engagement with customers is essential. The company has launched its 'WaterFuture' brand. This has been used across a suite of communication materials including presentations, leaflets, videos and a new website – southwestwater.co.uk/waterfuture

In order to keep customers' priorities central to the business-planning process the company has also created a 'WaterFuture' customer challenge panel which comprises representatives from various regulatory, stakeholder and consumer groups. Their involvement has helped shape the updated 25-year outlook which provides a long-term context for the next business plan.

Investment scenario planning is currently under way and includes identification and discussion with Regulators on long-term legislative obligations which drive investment plans and priorities. The outcomes will be captured in the updated 25-year outlook which is due for publication in the near future.

South West Water Outlook

The company has delivered successfully its operational strategy, underpinned by strong financial performance. It is focusing on continued delivery of efficiencies whilst satisfying regulatory and legislative obligations and improving services to customers. The K5 outlook for South West Water is focused on outperforming the regulatory contract.

South West Water is preparing for PR14, is actively engaged in the development of Ofwat's regulatory reform agenda and is well positioned for legislative changes.

VIRIDOR

Viridor's strategy is to add value through recycling and renewable energy generation whilst capitalising on its strong position in landfill.

From 2007/08 until H1 2011/12, growth in profits from recycling had more than offset the decline in annual landfill profits. As noted since February 2012, Viridor's performance has been impacted by recyclate prices which have remained under pressure reflecting world economic conditions. Overall average price per tonne for the half year fell to £103, 17.6% lower than for H1 2011/12. However prices were significantly lower than this by the end of the second quarter. Recycling revenues for H1 2012/13 were £18.8m lower than the same period last year. While action has been taken to reduce the cost base as described below, about half of the impact of the reduction in recyclate prices has been recovered through the terms of customer supply contracts and cost reductions. PBIT plus joint ventures was £27.8m in H1 2012/13, down 30.5% on H1 2011/12. The company has not seen an overall improvement in prices to date in the third quarter and is therefore cautious on the prospects for recyclate prices and continues to focus on revenue optimisation and facilities rationalisation/cost reduction. Viridor's financial performance will continue to be impacted by trends in recycling and landfill.

However, Viridor continues to make strong progress on its growing pipeline of PPP/EfW projects which underpins its long-term profit momentum. In addition to facilities currently under construction, since March it has reached financial close on both the Glasgow DBFO and the South London PPP, become preferred bidder on the Peterborough PPP and achieved a planning relaxation for its proposed Dunbar EfW enabling it to serve the whole of Scotland. PPP and EfW projects already contribute to the bottom line and the healthy pipeline could add more than £100m to Viridor's EBITDA within the next four years as more facilities come on stream from 2013/14 onwards.

Financial Highlights

Revenue was down 5.3% to £378.1m. Recycling revenue decreased £18.8m due to lower prices, and landfill plus landfill tax was down £7.5m due to lower volumes.

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) for the half year decreased by £13.5m (23.1%) to £44.9m. PBIT fell £14.2m to £21.0m. PBIT plus joint ventures decreased by £12.2m (30.5%) to £27.8m.

Profit before tax decreased £8.1m to £22.5m, including the benefit of reduced interest from intra group funding.

Capital expenditure and investment in joint ventures for the half year was £145.4m (H1 2011/12 - £49.0m) of which c£132m was for Viridor growth projects (largely EfW) with the balance being maintenance of existing assets.

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a major increase in recycling, with residual waste increasingly being used for energy recovery. The latter is a form of biomass and is a significant source of renewable energy already accounting for approaching 2% of total UK electricity production. Viridor believes that up to 6% of electricity could come from waste sources by 2015. At present there is about 6m tonnes of EfW capacity in the UK and it is estimated that at least 15m tonnes capacity will be required by 2020 to meet the Government's landfill diversion targets.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and EfW facilities remains landfill tax. The Chancellor's Budget announcement in March 2012 reconfirmed the continuation of the increase in landfill tax of £8 a year from £64 per tonne from 1 April 2012 to £80 per tonne from 1 April 2014. This increase will enhance further the long-term economics of recycling and energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor's clearly stated strategy is to add value by focusing on recycling and waste based renewable energy whilst exploiting its existing landfill void. Viridor has substantially increased its recycling business over the past 5 years to a total of c2m tonnes per annum. The next phase of its strategy involves substantial growth in our EfW capacity.

Recycling

During the half year recycling volumes traded increased by 23k tonnes (2.6%) to 936k tonnes. An extra 27k tonnes from acquisitions was offset by weak UK economic conditions. Overall average recycling revenues from gate fees and recyclate sales in H1 2012/13 were down 17.6% to £103 per tonne compared to £125 in the previous half year with prices significantly below £103 per tonne by the end of Q2. No overall improvement has been seen in prices to date in Q3 and the company is cautious on prospects for recovery. To help mitigate the down turn in recycling, the company continues to be focused on revenue optimisation and facilities rationalisation/cost reduction.

Viridor now has the largest Materials Recycling Facilities (MRFs) capacity in the UK. To feed its recycling and renewable energy plants Viridor relies on both its own and third party collection services.

Acquisitions

Viridor has made two acquisitions since 31 March 2012 targeted to support its recycling and EfW strategies.

In July 2012 Viridor acquired JWT Holdings Limited, a waste collection and recycling business based in Greater Manchester, for £7.6m. It has an annual volume of around 70k tonnes of material.

In October 2012 Viridor acquired Pulp Friction Limited, a paper collection and processing business based in Kent, and the business and assets of a related business, SBS Paper LLP, for £9.0m. It has an annual volume of around 100k tonnes of paper and card per annum.

The above acquisitions were made on a debt-free basis.

Contracts and collection

Profits in “Contracts & Other” were up overall across the 16 municipal contracts around the UK (the more significant ones include Lancashire, Glasgow, Lakeside, Manchester, Somerset, W Sussex PFI and Bedfordshire (last full year)) and the Thames Water contract. Profits in the collection business were down reflecting reduced volumes and price pressure. Viridor’s collection fleet plays an increasing role in feeding the company’s recycling plants.

Renewable Energy

Energy can be recovered from waste in two ways, either via gas (notably landfill gas and anaerobic digestion) or combustion (in EfW plants and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes). Energy recovery from waste currently accounts for approaching 30% of total UK renewable energy (20% from landfill gas and the balance from combustion). As noted above, this equates to approaching 2% of total UK electricity production (from both renewable and non-renewable sources).

Viridor's landfill gas power generation output increased by a further 8% to 303 Gigawatt hours (GWh) (the figure excludes a small amount of sub-contract capacity in Suffolk) during the half year reflecting a successful output optimisation programme and is approaching its peak. Average revenue per Megawatt hour (MWh) was down by 3% to £77.7 per MWh (from £79.8 per MWh in H1 2010/11) reflecting the reduced Renewables Obligation Buyout Recycle (ROBOR) fund payment element of ROC prices. Total landfill gas power generation operational capacity decreased by 1MW during the half year to 105MW, (excluding 3MW capacity at sub-contract sites in Suffolk), reflecting rebalancing of capacity between sites. The proportion of operational capacity eligible for ROCs remained at 74%, with the remaining 26% being on (lower priced) NFFO contracts. Viridor's NFFO contracts end in tranches, after which the capacity for all Viridor's sites will transfer to ROCs (about 60% will move across in 2013/14 with the balance in the period up to 2016/17).

As well as the 105MW of landfill gas capacity, Viridor has a further 29MW of renewable energy capacity across its share of the Lakeside EfW, the Bolton EfW facility and the Greater Manchester Anaerobic Digestion (AD) operations.

In addition to the above operational projects, Viridor is pursuing a number of other renewable energy opportunities. Five EfWs are already under construction - Runcorn I and II, Exeter, Oxfordshire and Cardiff. Viridor has a total of 1.7m tonnes of EfW capacity under construction or committed subject to planning permission (of which 0.9m is already backed by municipal contracts and Viridor collection) which will give it a total capacity of at least 2.0m tonnes by the end of 2015/16.

Since the start of 2012/13 Viridor has made significant further progress in developing its pipeline of long term PPP and EfW projects :

- Glasgow recycling and residual waste Design Build Finance Operate (DBFO) - contract signed July 2012

- South London Waste Partnership residual waste PPP - contract signed November 2012

- Peterborough recycling and residual waste contract - preferred bidder

- Planning restriction on Dunbar's future EfW relaxed in October 2012 - proposed plant will now be able to take waste from the whole of Scotland

Viridor continues to bid selectively for other PPP projects. The company is one of the last two for Central Bedfordshire residual waste, South East Wales (Prosiect Gwyrdd) residual waste and West Lothian residual waste.

Joint Ventures

Total joint ventures' contribution (comprising both Lakeside and VLGM), which consists of interest on shareholder's loans and share of profit after tax, rose 42% to £6.8m (H1 2011/12 - £4.8m).

(a) Lakeside

Lakeside, the first of Viridor's EfW pipeline projects, continues to perform very strongly and is ahead of management expectations in terms of both waste inputs and energy output. H1 2012/13 contribution was £3.0m (H1 2011/12 £1.8m): interest receivable on shareholder loans was £0.8m, up £0.2m; and share of profit after tax from Lakeside was £2.2m (up £1.0m on the previous half year reflecting strong waste inputs and electricity generation). A further £1.5m contribution came from the sub-contract profit (included in the contracts segment above).

(b) Viridor Laing (Greater Manchester)

The 25 year Greater Manchester Waste PFI contract (being delivered through VLGM) is the UK's largest ever combined waste and renewable energy project. The company is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor. At 30 September 2012, 39 of the 43 facilities planned had been formally taken over by Viridor.

As reported previously, solid recovered fuel produced from the waste will be used to generate heat and power at a plant being built at Runcorn in Cheshire. Phase I is being built primarily for the Greater Manchester Waste PFI contract and Phase II will be available for the market generally, as steeply rising landfill tax drives residual waste disposal away from landfill towards recycling and EfW.

As part of the VLGM contract, a separate contractor was mandated to construct 43 facilities. As noted above, 39 of these facilities have now been formally taken over by Viridor and one facility is due to be completed as planned in 2013. The 43 facilities include 4 mechanical biological treatment (MBT) plants. One of these MBTs has been taken over and the remaining 3 are substantially complete, but have not yet been taken over. The delays in takeover of these 3 remaining plants are impacting the VLGM joint venture credit agreements but are being addressed and are not expected to affect the financing of the project or have a material impact on the performance of the PFI.

Interest receivable on shareholder loans from the VLGM joint venture was £3.8m, up £1.1m due to increased shareholder loans (H1 2011/12 - £2.7m). Share of profit after tax from VLGM on an IFRIC 12 basis was £nil, down £0.3m (£3.2m profit UK GAAP, up £1.8m).

Landfill

Viridor's strategy is focused on recycling and renewable energy whilst capitalising on its strong position in landfill as the landfill market declines in line with Government policies. The overall profit contribution from this segment was maintained in the half year even though Viridor's landfill disposal volumes decreased by 0.3m tonnes (17.0%) to 1.4m tonnes in H1 2012/13. The closure of the landfill site at Horton and the mothballing of the site at Whitehead accounted for one third of the decline. Increased recycling and landfill diversion by third party industrial and commercial customers and the weak UK economy were also important factors. Average gate fees increased by 15.7% to £26 per tonne with the gain only partially offset by increased costs on lower volumes. Consented landfill void reduced from 65.4 million cubic metres (mcm) at 31 March 2012 to 64.0mcm at 30 September 2012, reflecting usage during the period.

Outlook for Viridor

Viridor has successfully transformed itself over the last decade from predominantly a landfill operator to being one of the country’s leading recycling, renewable energy and waste management companies. Viridor is facing near-term headwinds and the company remains cautious about the future prospects for recyclate prices; it is therefore focusing strongly on a stringent programme of revenue optimisation and facilities rationalisation/cost reduction. Strong progress has, however, been made on the PPP/EfW pipeline this half year and these projects are already making a significant contribution to Viridor’s bottom line. The growing pipeline of current and future projects underpins the company’s long-term profit momentum.

GROUP FINANCIAL POSITION

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group has fixed or put in place swaps to fix the interest rate on at least 50% of South West Water's net debt for the remainder of the entire K5 period. The average rate achieved on the fixed rate debt is circa 3.4%. In addition £380m of South West Water's debt is index-linked at an overall real rate of 1.7%. Pennon Group's average interest rate for the half year to 30 September 2012 was 3.2% and South West Water's was 4.0%.

The Group had substantial cash resources and committed funding as at 30 September 2012 and is well placed in current financial market conditions:

- cash balances of £459m (SWW £196m), including £126m restricted cash
- undrawn facilities of £536m

During the six months to 30 September 2012 £85m of new and renewed facilities were secured. A further £213m has been renewed/secured since 30 September.

The Group's average debt maturity is 22 years.

During the period the Group recorded fair value losses of £11.7m on swaps, as indicated in the Statement of Comprehensive Income on page 29. These swaps are expected to be held to maturity and hence these losses will reverse over time.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2012 of circa £80m (£104m gross), an increase of £5m since 31 March 2012.

The net deficit represents circa 4% of current market capitalisation.

Schemes' assets increased from £517m at 31 March 2012 to £526m at 30 September 2012, and schemes' liabilities increased from £616m to £630m over the same period.

South West Water's pension cash contributions continue to be within the Final Determination for the K5 period.

TAXATION

The mainstream corporation tax charge for the half year was £23.2m (2011/12 – £23.4m) giving an effective current tax rate of 21% (2011/12 – 22%).

Deferred tax for the half year was a credit of £7.1m (2011/12 credit – £9.3m) which included a credit of £13.9m from the impact of the reduction in the rate of corporation tax from April 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.7 of the Disclosure and Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year of the Group remain as set out on pages 28 to 33 inclusive of the Group's 2012 Annual Report and Accounts, namely:

- changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on financial results or operations;
- economic and tough trading conditions could materially affect the Group's revenues and profitability;
- access to finance and funding costs may be adversely affected by perceived credit rating and by prolonged periods of market volatility or liquidity. The Group is subject to limitations and restrictive obligations in respect of borrowing and debt arrangements;
- poor operating performance or a failure of, or interruption to, operating systems or the inability to carry out network operations or damage to infrastructure may have a material adverse impact on both the Group's financial position and reputation;
- the failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance could have a material adverse effect on both the Group's financial position and reputation;
- a reduced customer base, increased competition affecting prices or reduced demand for services could have a material adverse impact on the Group's financial position; and
- information technology and business continuity systems and processes may fail which may cause material disruption to the Group's businesses and could have a material adverse impact on both the Group's financial position and reputation.

Further details of these principal risks and uncertainties and the mitigating actions of the Group can be viewed on or downloaded from the Group's website, pennon-group.co.uk/investor/reports or obtained from the Group Company Secretary at the Company's registered office.

STRATEGY AND PROSPECTS

The Pennon Board's priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services, recycling, renewable energy and waste management.

South West Water has continued its excellent start to K5 with very strong operational delivery, high standards of customer service and a robust financial performance.

Viridor is facing near-term headwinds from recyclate prices which have fallen significantly below the peak level of last year's first half. We remain cautious about the prospect for a recovery in recyclate prices but Viridor's growing Public Private Partnership and Energy from Waste pipeline form the basis for future growth.

Ken Harvey
Chairman
29 November 2012

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2013

30 January 2013	Ordinary shares quoted ex-dividend
1 February 2013	Record date for interim cash dividend
Mid-February 2013	Interim Management Statement
18 February 2013	Posting of Scrip dividend offer
11 March 2013	Final date for receipt of Forms of Election/Mandate
4 April 2013	Interim cash dividend payment date
23 May 2013	2012/13 Preliminary Results
Late June 2013	Annual Report & accounts published
1 August 2013	Annual General Meeting
August 2013	Interim Management Statement
7 August 2013 *	Ordinary shares quoted ex-dividend
9 August 2013 *	Record date for final cash dividend
16 September 2013 *	Final date for receipt of Forms of Election/Mandate
4 October 2013 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2013 Annual General Meeting.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to Pennon Group’s operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Words such as "anticipates", "aims", “believes", “continue”, "could", "due", "estimates“, "expects", "goal", “intends", "may", “plans", “project”, “seeks”, "should", "targets", “will” and related and similar expressions, as well as statements in the future tense, identify forward-looking statements in this Report. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. Nothing in this report should be construed as a profit forecast. The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group Plc, continue to be aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based ‘brokers’ who target UK shareholders offering to buy their shares. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares or offers of free reports into the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2012

	Note	Unaudited Half year ended 30 September 2012 £m	Unaudited Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Revenue	5	**633.7**	642.6	1,233.1
Operating costs				
Manpower costs		**(79.8)**	(77.8)	(155.4)
Raw materials and consumables used		**(60.3)**	(72.8)	(133.9)
Other operating expenses		**(282.9)**	(275.3)	(528.0)
Depreciation and amortisation		**(74.4)**	(73.6)	(147.0)
Operating profit	5	**136.3**	143.1	268.8
Finance income	6	**92.1**	91.5	119.3
Finance costs	6	**(119.5)**	(128.7)	(191.6)
Net finance costs	6	**(27.4)**	(37.2)	(72.3)
Share of post-tax profit from joint ventures		**2.2**	1.5	4.0
Profit before tax	5	**111.1**	107.4	200.5
Taxation	7	**(16.1)**	(14.1)	(28.1)
Profit for the period		**95.0**	93.3	172.4
Profit attributable to equity shareholders		**95.0**	93.3	172.4
Earnings per share (pence per share)	8			
- Basic		**26.2**	26.1	48.1
- Diluted		**26.0**	25.9	47.8

The notes on pages 33 to 42 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2012

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Profit for the period	**95.0**	93.3	172.4
Other comprehensive loss			
Actuarial losses on defined benefit pension schemes	**(6.9)**	(26.3)	(51.7)
Cash flow hedges			
Net fair value losses	**(11.7)**	(29.9)	(24.7)
Amount recognised in property, plant and equipment	**0.9**	-	-
Share of other comprehensive gain/(loss) from joint ventures	**1.8**	(2.9)	(5.4)
Deferred tax on items taken directly to or transferred from equity	**1.0**	10.7	16.0
Other comprehensive loss for the period net of tax	**(14.9)**	(48.4)	(65.8)
Total comprehensive income for the period	**80.1**	44.9	106.6
Total comprehensive income attributable to equity shareholders	**80.1**	44.9	106.6

The notes on pages 33 to 42 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2012

	Note	Unaudited 30 September 2012 £m	Unaudited 30 September 2011 £m	31 March 2012 (Restated note 4) £m
ASSETS				
Non-current assets				
Goodwill		**330.6**	301.5	325.6
Other intangible assets		**18.9**	4.1	20.6
Property, plant and equipment		**3,184.3**	2,952.7	3,083.7
Other non-current assets		**163.3**	112.4	138.4
Derivative financial instruments		**31.3**	19.3	21.9
Investments in joint ventures		**0.1**	0.1	0.1
		3,728.5	3,390.1	3,590.3
Current assets				
Inventories		**10.4**	7.0	9.0
Trade and other receivables		**277.8**	254.4	238.4
Financial assets at fair value through profit		**0.8**	-	0.5
Derivative financial instruments		**13.3**	5.4	9.7
Cash and cash deposits	12	**458.8**	510.1	425.3
		761.1	776.9	682.9
LIABILITIES				
Current liabilities				
Borrowings	12	**(383.0)**	(49.6)	(325.5)
Financial liabilities at fair value through profit		**-**	(0.6)	-
Derivative financial instruments		**(24.9)**	(13.2)	(16.6)
Trade and other payables		**(333.5)**	(311.7)	(241.6)
Current tax liabilities		**(60.4)**	(69.9)	(59.8)
Provisions		**(27.2)**	(23.8)	(25.6)
		(829.0)	(468.8)	(669.1)
Net current (liabilities)/assets		**(67.9)**	308.1	13.8
Non-current liabilities				
Borrowings	12	**(2,248.8)**	(2,390.4)	(2,204.4)
Other non-current liabilities		**(77.7)**	(39.7)	(76.9)
Financial liabilities at fair value through profit		**(23.7)**	(19.3)	(16.7)
Derivative financial instruments		**(37.8)**	(34.2)	(32.0)
Retirement benefit obligations		**(103.7)**	(108.5)	(98.6)
Deferred tax liabilities		**(269.1)**	(272.5)	(277.1)
Provisions		**(70.7)**	(75.5)	(76.3)
		(2,831.5)	(2,940.1)	(2,782.0)
Net assets		**829.1**	758.1	822.1
Shareholders' equity				
Share capital	10	**148.9**	147.3	148.2
Share premium account		**7.3**	8.9	8.0
Capital redemption reserve		**144.2**	144.2	144.2
Retained earnings and other reserves		**528.7**	457.7	521.7
Total shareholders' equity		**829.1**	758.1	822.1

The notes on pages 33 to 42 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity

	Unaudited				
	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2011	147.0	9.2	144.2	479.1	779.5
Profit for the period	-	-	-	93.3	93.3
Other comprehensive loss for the period	-	-	-	(48.4)	(48.4)
Total comprehensive income for the period	-	-	-	44.9	44.9
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(88.2)	(88.2)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.3	(0.3)	-	19.1	19.1
Adjustment in respect of share-based payments	-	-	-	1.5	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.3)	(0.3)
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	0.3	(0.3)	-	(66.3)	(66.3)
At 30 September 2011	147.3	8.9	144.2	457.7	758.1

	Unaudited				
	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2012	148.2	8.0	144.2	521.7	822.1
Profit for the period	-	-	-	95.0	95.0
Other comprehensive loss for the period	-	-	-	(14.9)	(14.9)
Total comprehensive income for the period	-	-	-	80.1	80.1
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(96.1)	(96.1)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.7	(0.7)	-	18.1	18.1
Adjustment in respect of share-based payments	-	-	-	1.5	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.9)	(0.9)
Proceeds from treasury shares re-issued	-	-	-	4.3	4.3
	0.7	(0.7)	-	(73.1)	(73.1)
At 30 September 2012	**148.9**	**7.3**	**144.2**	**528.7**	**829.1**

The notes on pages 33 to 42 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2012

	Note	**Unaudited** Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Cash flows from operating activities				
Cash generated from operations	11	**166.5**	176.5	324.7
Interest paid		**(38.9)**	(42.4)	(74.5)
Tax paid		**(15.2)**	(23.2)	(41.4)
Net cash generated from operating activities		**112.4**	110.9	208.8
Cash flows from investing activities				
Interest received		**7.6**	9.9	13.2
Acquisition of subsidiary undertakings (net of cash acquired)		**(6.5)**	(1.5)	(29.2)
Loans advanced to joint ventures		**-**	(4.2)	(13.4)
Loan repayments received from joint ventures		**0.1**	3.6	3.6
Dividends received from joint venture		**4.0**	-	-
Purchase of property, plant and equipment		**(169.7)**	(94.8)	(262.2)
Proceeds from sale of property, plant and equipment		**1.5**	1.5	4.6
Net cash used in investing activities		**(163.0)**	(85.5)	(283.4)
Cash flows from financing activities				
Proceeds from treasury shares re-issued		**3.9**	1.6	1.9
(Deposit)/return of restricted funds		**(3.5)**	15.7	(0.1)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.9)**	(0.3)	(0.3)
Proceeds from new borrowing		**137.4**	25.0	25.0
Repayment of borrowings		**(22.6)**	(65.0)	(71.0)
Finance lease sale and leaseback		**-**	15.0	79.5
Finance lease principal repayments		**(4.8)**	(7.4)	(14.0)
Dividends paid		**(18.4)**	(21.6)	(69.1)
Net cash received from/(used in) financing activities		**91.1**	(37.0)	(48.1)
Net increase/(decrease) in cash and cash equivalents		**40.5**	(11.6)	(122.7)
Cash and cash equivalents at beginning of period	12	**292.2**	414.9	414.9
Cash and cash equivalents at end of period	12	**332.7**	403.3	292.2

The notes on pages 33 to 42 form part of this condensed half year financial information.

Notes to the condensed half year financial information

1. General information

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 42. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is recycling, renewable energy and waste management.

This condensed half year financial information was approved by the Board of Directors on 28 November 2012.

The financial information for the period ended 30 September 2012 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The statutory accounts for 31 March 2012 were approved by the Board of Directors on 18 June 2012 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 "Interim financial reporting" as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2012, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

This condensed half year financial information has been reviewed but not audited by the independent auditors pursuant to the Auditing Practices Board guidance on the "Review of Interim Financial Information".

3. Accounting policies

The accounting policies adopted in this condensed half year financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2012 and are also in accordance with all IFRSs and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ended 31 March 2013 in issue which have been adopted by the EU.

The tax charge for September 2012 and September 2011 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

New or revised standards or interpretations which were mandatory for the first time in the year beginning 1 April 2012 did not have a material impact on the net assets or results of the Group.

4. Acquisitions and restatements

At 31 March 2012 the accounting for the acquisitions of JWS Churngold Limited (renamed Viridor (Lancashire) Limited) and Veolia's trade waste collection interests in Cornwall and North Devon was provisional. Completion of the accounting for these acquisitions has resulted in a decrease to goodwill of £1.5m, an increase in other intangible assets of £3.1m, an increase in property, plant and equipment of £0.9m, a decrease in trade and other payables of £0.9m, an increase in current tax liabilities of £0.1m and an increase in deferred tax of £3.3m. Comparative figures at 31 March 2012 have been restated accordingly.

On 5 July 2012 the entire issued share capital of JWT Holdings Limited (renamed Viridor Waste (Atherton) Limited) was acquired by Viridor Waste Management Limited for a cash consideration of £6.6m. The acquisition has been accounted for using the acquisition method. Provisional goodwill arising of £5.0m has been capitalised. The provisional goodwill arising on this acquisition is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

Acquisition since 30 September 2012

On 8 October 2012 Viridor Waste Management Limited acquired the entire issued share capital of Pulp Friction Limited (renamed Viridor (Erith) Limited) and the trade and assets of SBS Paper LLP, a related business, for a cash consideration of £8.6m. The acquisition will be accounted for using the acquisition method in the 2012/13 financial year.

5. Operating segments

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board.

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Revenue			
Water and sewerage	**256.5**	244.3	474.0
Waste management	**378.1**	399.2	761.1
Other	**5.3**	5.1	9.8
Less intra-segment trading *	**(6.2)**	(6.0)	(11.8)
	633.7	642.6	1,233.1
Segment result			
Operating profit before depreciation and amortisation (EBITDA)			
Water and sewerage	**165.5**	158.4	305.2
Waste management	**44.9**	58.4	110.3
Other	**0.3**	(0.1)	0.3
	210.7	216.7	415.8
Operating profit			
Water and sewerage	**115.0**	107.9	204.7
Waste management	**21.0**	35.2	63.7
Other	**0.3**	-	0.4
	136.3	143.1	268.8
Profit before tax			
Water and sewerage	**83.8**	76.2	141.5
Waste management	**22.5**	30.6	57.6
Other	**4.8**	0.6	1.4
	111.1	107.4	200.5

* Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions that would also be available to unrelated third parties. Intra-segment revenue of the other segment is at cost.

Factors such as seasonal weather patterns can affect sales volumes, income and costs in both the water and sewerage and waste management segments.

Geographic analysis of revenue based on location of customers

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
UK	**601.5**	606.5	1,162.4
Rest of European Union	**5.6**	7.7	13.3
China	**21.0**	25.2	51.0
Rest of World	**5.6**	3.2	6.4
	633.7	642.6	1,233.1

The UK is the Group's country of domicile and generates the majority of its revenue from external customers in the UK. The Group's non-current assets are located in the UK.

Notes to the condensed half year financial information (continued)

6. Net finance costs

	Unaudited Half year ended 30 September 2012			Half year ended 30 September 2011			Year ended 31 March 2012		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt									
Bank borrowings and overdrafts	**(22.0)**	**-**	**(22.0)**	(26.2)	-	(26.2)	(50.0)	-	(50.0)
Interest element of finance lease rentals	**(20.5)**	**-**	**(20.5)**	(19.4)	-	(19.4)	(38.8)	-	(38.8)
Other finance costs	**(1.9)**	**-**	**(1.9)**	(2.6)	-	(2.6)	(5.5)	-	(5.5)
Interest receivable	**-**	**3.1**	**3.1**	-	2.8	2.8	-	6.2	6.2
Interest receivable on shareholder loans to joint ventures	**-**	**4.6**	**4.6**	-	3.3	3.3	-	7.5	7.5
	(44.4)	**7.7**	**(36.7)**	(48.2)	6.1	(42.1)	(94.3)	13.7	(80.6)
Other finance income									
Investment income received	**-**	**61.9**	**61.9**	-	67.3	67.3	-	67.3	67.3
Fair value losses on derivative financial instruments providing commercial hedges	**(58.8)**	**-**	**(58.8)**	(63.9)	-	(63.9)	(63.9)	-	(63.9)
	(58.8)	**61.9**	**3.1**	(63.9)	67.3	3.4	(63.9)	67.3	3.4
Notional interest									
Interest receivable on service concession arrangements	**-**	**2.6**	**2.6**	-	1.5	1.5	-	3.3	3.3
Retirement benefit obligations	**(14.3)**	**16.2**	**1.9**	(14.6)	16.6	2.0	(29.1)	32.7	3.6
Unwinding of discounts on provisions	**(2.0)**	**-**	**(2.0)**	(2.0)	-	(2.0)	(4.3)	-	(4.3)
	(16.3)	**18.8**	**2.5**	(16.6)	18.1	1.5	(33.4)	36.0	2.6
Net gains on non-designated derivative financial instruments	**-**	**3.7**	**3.7**	-	-	-	-	2.3	2.3
	(119.5)	**92.1**	**(27.4)**	(128.7)	91.5	(37.2)	(191.6)	119.3	(72.3)

Other finance income represents enhanced yields from investment income received on deposits held, partially offset by fair value losses on derivative financial instruments which provided commercial hedges against these short-term structured deposits. These transactions commenced and matured during the period.

Notes to the condensed half year financial information (continued)

7. Taxation

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Analysis of charge :			
Current tax	**23.2**	23.4	30.9
Deferred tax – other	**6.8**	3.5	23.6
Deferred tax arising on change of rate of corporation tax	**(13.9)**	(12.8)	(26.4)
Total deferred tax credit	**(7.1)**	(9.3)	(2.8)
	16.1	14.1	28.1

UK corporation tax is calculated at 24% (2011 26%) of the estimated assessable profit for the year. The tax charge for September 2012 and September 2011 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

Deferred tax includes a non-recurring credit of £13.9m reflecting the reduction in the rate of UK corporation tax from 24% to 23% effective from 1 April 2013.

The effective tax rate for the period was 14% (2011 13%).

Tax on amounts included in the consolidated statement of comprehensive income, or directly in equity, is included in those statements respectively.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

8. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share the weighted average number of ordinary shares is adjusted to include all dilutive potential ordinary shares.

The weighted average number of shares and earnings used in the calculations were:

	Unaudited		
	Half year ended 30 September 2012	Half year ended 30 September 2011	Year ended 31 March 2012
Number of shares (millions)			
For basic earnings per share	**362.1**	357.4	358.7
Effect of dilutive potential ordinary shares from share options	**2.2**	2.4	2.2
For diluted earnings per share	**364.3**	359.8	360.9

Basic and diluted earnings per share

Earnings per share before deferred tax are presented to provide a more useful comparison on business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long-term investment. Earnings per share have been calculated:

	Unaudited								
	Half year ended 30 September 2012			Half year ended 30 September 2011			Year ended 31 March 2012		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings per share	**95.0**	**26.2**	**26.0**	93.3	26.1	25.9	172.4	48.1	47.8
Deferred tax	**(7.1)**	**(1.9)**	**(1.9)**	(9.3)	(2.6)	(2.6)	(2.8)	(0.8)	(0.8)
Earnings per share before deferred tax	**87.9**	**24.3**	**24.1**	84.0	23.5	23.3	169.6	47.3	47.0

Notes to the condensed half year financial information (continued)

9. **Dividends**

Amounts recognised as distributions to equity holders in the period :	**Unaudited**		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Interim dividend paid for the year ended 31 March 2012 : 8.22p (2011 7.50p) per share	**29.7**	26.8	26.8
Final dividend approved for the year ended 31 March 2012 : 18.30p (2011 17.15p) per share	**66.4**	61.4	61.4
	96.1	88.2	88.2

Proposed interim dividend	**Unaudited**		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Proposed interim dividend for the year ended 31 March 2013 : 8.76p (2012 8.22p) per share	**31.9**	29.6	29.6

The proposed interim dividend of 8.76p per share will be paid on 4 April 2013 to shareholders on the register on 1 February 2013.

The proposed interim dividend has not been included as a liability in this condensed half year financial information.

Notes to the condensed half year financial information (continued)

10. Share capital

Allotted, called up and fully paid

1 April 2011 to 30 September 2011	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2011 Ordinary shares of 40.7p each	4,309,567	356,970,298	147.0
Shares issued under the scrip dividend alternative	-	824,749	0.3
Shares re-issued under the Company's Performance and Co-investment Plan	(246,793)	246,793	-
For consideration of £0.3m, shares re-issued to the Pennon Employee Share Trust	(44,667)	44,667	-
For consideration of £1.3m, shares re-issued under the Company's Sharesave Scheme	(332,466)	332,466	-
At 30 September 2011 ordinary shares of 40.7p each	**3,685,641**	**358,418,973**	**147.3**

1 April 2012 to 30 September 2012	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2012 Ordinary shares of 40.7p each	3,632,705	360,588,466	148.2
Shares issued under the scrip dividend alternative	-	1,621,221	0.7
Shares re-issued under the Company's Performance and Co-investment Plan	(493,217)	493,217	-
For consideration of £0.9m, shares re-issued to the Pennon Employee Share Trust	(113,957)	113,957	-
For consideration of £3.0m, shares re-issued under the Company's Sharesave Scheme	(764,012)	764,012	-
For consideration of £0.4m, shares re-issued under the Executive Share Option Scheme	(76,415)	76,415	-
At 30 September 2012 ordinary shares of 40.7p each	**2,185,104**	**363,657,288**	**148.9**

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

The weighted average market price of the Company's shares at the date of exercise of Sharesave Scheme options during the half year was 736p (2011 650p).

Notes to the condensed half year financial information (continued)

11. Cash flow from operating activities

Reconciliation of profit to net cash inflow from operating activities:

Cash generated from operations	Unaudited Half year ended 30 September 2012 £m	Unaudited Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Profit for the period	**95.0**	93.3	172.4
Adjustments for:			
Share-based payments	**1.5**	1.5	3.6
Profit on disposal of property, plant and equipment	**(0.4)**	(1.0)	(2.8)
Depreciation charge	**72.7**	73.2	145.6
Amortisation of intangible assets	**1.7**	0.4	1.4
Share of post-tax profit from joint ventures	**(2.2)**	(1.5)	(4.0)
Finance income	**(92.1)**	(91.5)	(119.3)
Finance costs	**119.5**	128.7	191.6
Taxation charge	**16.1**	14.1	28.1
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*			
(Increase)/decrease in inventories	**(1.4)**	0.3	(1.7)
Increase in trade and other receivables	**(38.9)**	(30.4)	(9.4)
Increase in service concession arrangements receivable	**(17.2)**	(0.3)	(17.9)
Increase/(decrease) in trade and other payables	**18.1**	(2.0)	(13.2)
Increase/(decrease) in retirement benefit obligations	**0.1**	(1.6)	(35.3)
Decrease in provisions	**(6.0)**	(6.7)	(14.4)
Cash generated from operations	**166.5**	176.5	324.7

12. Net borrowings

	Unaudited Half year ended 30 September 2012 £m	Unaudited Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Cash and cash deposits	**458.8**	510.1	425.3
Borrowings – current			
Bank overdrafts	**-**	-	(10.5)
Other current borrowings	**(341.8)**	(21.1)	(274.3)
Finance lease obligations	**(41.2)**	(28.5)	(40.7)
Total current borrowings	**(383.0)**	(49.6)	(325.5)
Borrowings – non-current			
Bank and other loans	**(793.6)**	(959.0)	(729.4)
Other non-current borrowings	**(216.4)**	(237.5)	(231.5)
Finance lease obligations	**(1,238.8)**	(1,193.9)	(1,243.5)
Total non-current borrowings	**(2,248.8)**	(2,390.4)	(2,204.4)
Total net borrowings	**(2,173.0)**	(1,929.9)	(2,104.6)

12. **Net borrowings (continued)**

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Cash and cash deposits as above	**458.8**	510.1	425.3
Bank overdrafts as above	**-**	-	(10.5)
	458.8	510.1	414.8
Less : deposits with a maturity of three months or more (restricted funds)	**(126.1)**	(106.8)	(122.6)
	332.7	403.3	292.2

13. **Capital expenditure**

	Unaudited		
	Half year ended 30 September 2012 £m	Half year ended 30 September 2011 £m	Year ended 31 March 2012 £m
Property, plant and equipment			
Additions	**171.6**	99.9	257.4
Net book value of disposals	**1.1**	0.5	1.8
Capital commitments			
Contracted but not provided	**585.6**	189.8	545.8

14. **Contingent liabilities**

There have been no material changes to the Group's contingent liabilities since 31 March 2012.

15. **Related party transactions**

The Group's significant related parties are its joint ventures in Lakeside Energy from Waste Holdings Limited and Viridor Laing (Greater Manchester) Holdings Limited and its associate INEOS Runcorn (TPS) Holdings Limited, for which disclosures were made in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2012. There was no material change during the half year to September 2012 in the level of transactions with these related parties.

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pennon-group.co.uk

Registered in England No 2366640

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that this unaudited condensed half year financial information has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.4, DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

The Directors of Pennon Group Plc are as listed on pages 44 and 45 of the Annual Report and Accounts of the Company for the year ended 31 March 2012 with the addition of Ms Gill Rider who was appointed as a Non-executive Director on 1 September 2012.

For and on behalf of the Board of Directors who approved this half year report on 28 November 2012.

K G Harvey
Chairman

D J Dupont
Group Director of Finance

28 November 2012

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Introduction

We have been engaged by the Company to review the condensed half year financial information in the half year report for the six months ended 30 September 2012, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed half year financial information.

Directors' responsibilities

The half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed half year financial information included in this half year report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed half year financial information in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed half year financial information in the half year report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
28 November 2012
Bristol